ANALYSIS OF FACTORS AFFECTING THE FRAUD FINANCIAL STATEMENT IN TRIANGLE FRAUD PERSPECTIVE: EMPIRICAL STUDY IN MANUFACTURING COMPANIES LISTED IN INDONESIA STOCK EXCHANGE (IDX) IN 2013 – 2017

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Abstract: This study aims to analyse the effect of financial stability, external pressure, financial targets, ineffective monitoring, change in auditors, and rationalization both simultaneously and partially on financial statement fraud on manufacturing companies listed on the Indonesia Stock Exchange in 2013-2017. The research population was manufacturing companies listed on the Indonesia Stock Exchange in 2013 - 2017 as many as 98 companies. Data analysis method in this study uses Eviews program. The results of this study are that Financial Stability has a positive and significant effect on financial statement fraud. External Pressure has a positive and significant effect on financial statement fraud. Financial Target has a negative and significant effect on financial statement fraud. Ineffective Monitoring has a negative and significant effect on financial statement fraud. Change In Auditor has a negative and insignificant effect on financial statement fraud. Rationalization has a positive and significant effect on financial statement fraud. Financial Stability, External Pressure, Financial Targets, Effective Monitoring, Change In Auditors, and Rationalisation simultaneously have a significant effect on financial statement fraud variables.

Keywords: Financial Statement Fraud, Financial Stability, Fraud triangle, manufacturing companies.

1. Introduction

In Indonesia, there are many cases of fraudulent financial reporting by companies to cover up deficiencies that occur. Therefore, financial statements become attractive to the readers and users of other financial statements. One of the cases of financial reporting fraud is that of PT Timah (Persero) Tbk (TINS). This case originated from the demands of the Timah Employees Association (IKT) against the directors of PT Timah (Persero) Tbk who were considered to have made a lot of mistakes and negligence during their tenure since 2013. IKT general chairman Ali Samsuri revealed that the directors had made public lies through the media. In the press release of the first half of 2015 financial statements, the directors stated that the company's performance was positive. But in reality in the first half of 2015 operating profit loss of Rp 59 billion. In addition to decreasing profits, PT Timah also recorded an increase in debt of almost 100 percent compared to 2013. In 2013, the company's debt only reached Rp 263 billion, but this debt increased to Rp 2.3 trillion in 2015.

The case can be seen that fraud was committed by an integral part of the company where the director's signature was falsified of the financial statements

provided to the tax office. This can occur because of the ineffectiveness of internal controls carried out by the company so that the lack of supervisory functions that result in detrimental to the company. The increasing level of fraud in financial reports and corporate failures causes concern over the power of financial reports where these concerns lead to new auditing standards and regulatory targets needed by investors, regulators, and auditors to focus on fraud prevention and detection (Yung-I Lou 2009). If fraud on financial statements is indeed a significant problem, the audit profession must effectively be able to detect the fraudulent activity before it develops into a scandal.

Skousen et al., (2009) stated that the fraud triangle component cannot be examined directly, so researchers must consider variables and proxies to measure it. ISA No. 240 has categorized three conditions in the fraud triangle related to financial statement fraud. The pressure category (Incentive / Pressure) consists of financial stability, External Pressure, Personal Financial Need and Financial Targets. Opportunity categories are nature of Industry and ineffective monitoring. While the rationalization category is rationalization. While the dependent variable is the detection of fraudulent financial statements proxied by earnings management.

According to Lou and Wang (2009) examining the effect of the Farud Triangle with the Financial Statement Fraud which is proxied by restatement or presentation of the financial statements, Skousen et al. (2008) and Sukirman (2012) examined the effect of fraud triangle with financial statement fraud which is proxied by earnings management, because there are many cases in Indonesia that make mistakes by manipulating financial statements as the case above, so this study will analyse the fraud triangle component on financial statement fraud which is proxied by earnings management.

2. Method

This research is an associative research that is research that aims to determine the effect or also the relationship between two or more variables. This type of research used in this research is descriptive quantitative. The research population is manufacturing companies listed on the Indonesia Stock Exchange in 2013-2017 as many as 93 companies. Data analysis method in research uses eviews 7 program.

2.1 Operational Variables

1. Dependent Variable (Y): Financial Statement Fraud is an act of fraud or intentional misrepresentation to obtain personal or group benefits that can directly or indirectly harm another party.
2. Independent Variable (X): Financial Stability is a situation that reflects the company's financial condition in a stable condition. External Preasure is excessive pressure on management to meet the requirements or expectations of third parties. Financial Targets are excessive pressure on management to achieve financial targets planned by directors or management. Ineffective Monitoring is a situation where a company does not have a monitoring system to monitor company performance. Change In Auditor is a change in Public Accounting Firm by the company and Rationalization is an attitude that allows to be involved or justify fraudulent financial statements.

2.2 Data analysis method

Data analysis methods in this study are descriptive statistics, multiple regression analysis (Multiple Regression Analysis) and this analysis method is used to get definite results in processing the data so that it can be accounted for. Meanwhile, the software used by the data analysis method is the eviews program.

3. Result and Discussion

3.1 Result

3.1.1 Chow Test

This test is used for choosing between fixed effect and common effect models. If the probability value is smaller than 0.05 (<0.05), the model used is the Fixed Effect Model (FEM). If the probability value is greater than 0.05 (> 0.05), the model used is the Common Effect Model (CEM).

No	Effect Test	Statistic	d.f.	Prob.
1	Cross-section F	2.849601	(97,386)	0.0000
2	Cross-section Chi Square	264.624161	97	0.0000

Chow Test probability value is seen based on the Chi-Square Cross-section probability in the table above which has a value of 0,000. Based on the table, the Chow Test states that a better estimation model is fixed effect (FE) than common effect (CE).

3.12 Hausman Test

Hausman test is a statistical test to choose whether the fixed effect or random effect model is the most appropriate. The basic idea of the Hausman test is the inverse relationship between the bias model and the efficient model. In the Fixed Effect Model the results of the estimation are unbiased and inefficient, whereas in the Random Effect Model the results of the estimation are biased and efficient.

No	Effect Test	Chi-Sq. Statistic	Chi-Sq.d.f.	Prob.
1	Cross-section Random	12.280411	6	0.056

It is known that the value of P Value Cross-section Random is greater than 0.05 which is 0.056 (0.05 <0.056). Then H0 is accepted, which means the best method that should be used is random effect rather than fixed effect. Because based on the Chow Test results it can be seen that a better model is a fixed effect (FE) rather than a common effect (CE), and the Hausman Test results show that it is random effect is better than fixed effect. Then a follow-up test, namely the Lagrange Multiplier Test needs to be done because to find out the best estimation method used between the common effect or random effect.

3.1.3 Lagrange Multiplier Test

The Lagrange Multiplier test is tested when the selected chow test is the fixed effect model and when the Hausman test is selected is the random effect model, then the lagrange multiplier test is performed

3.1.4 Coefficient of Determination

The coefficient of determination test is carried out to find out how the ability of the independent variable in explaining the dependent variable. R value of 0.571 shows that the variables of financial stability, external stability, personal financial

need, financial target, ineffective monitoring, change in auditor, and rationalization have a close correlation. While Adjusted R Square has a value of 0.517, which means the variance of the independent variables, namely financial stability, external requirements, personal financial needs, financial targets, ineffective monitoring, change in auditors, and rationalization are able to explain the Financial Statements Fraud of 51.7%. While 48.3% is explained by other variables not examined in this study.

3.1.5 Simultaneous Significance Test (Statistical F Test)

The F test is used to test H_1 simultaneously to see the effect of the independent variables together on the dependent variable. The results of simultaneous testing (F test) showed that financial stability, external requirements, personal financial needs, financial targets, ineffective monitoring, change in auditors, and rationalization of the Financial Statement Fraud were seen from its significance value (0,000 <0.05).

3.1.6 Partial Significance Test (Statistical t Test)

Partial test results (t test) show that:

1. Financial stability, external preferences, personal financial need, financial targets, ineffective monitoring and rationalization have a significant positive effect on the Financial Statement Fraud.
2. Change In Auditor has significant negative effect on the Financial Statement Fraud.

Multiple linear regression

$$Y = 3.588 + 0.333X_1 + 0.221X_2 - 0.262X3 - 0.720X4 - 0.393X_5 + 0.569X_6$$

3.2 Discussion

3.2.1 The Effect of Financial Stability on Financial Statement Fraud

The results of the Financial Stability testing projected through changes in assets divided by total assets to the financial statement fraud have a positive effect as indicated by the coefficient marked positive, meaning that any increase in financial stability of 1 will result in an increase in financial statement fraud of 17,056 with a record of other independent variables constant. Financial Stability has a significant positive effect on financial statement fraud. That is, financial stability affects financial statement fraud which illustrates the company's financial condition in a stable condition.

3.2.2 The Effect of External Equipment on the Financial Statement Fraud

The external pressure variable has a coefficient marked positive means that any increase in external pressure of 1 will result in an increase in the financial statement of fraud by 2,580 with the other independent variables being constant. External pressure significant positive effect on financial statement fraud. This means that excessive pressure on management can encourage management or company directors to take financial statement fraud actions. Overcoming these pressures requires additional debt or external financing sources to remain competitive, including asset financing and development or capital expenditures.

3.2.3 The Effect of Financial Targets on the Financial Statement Fraud

Financial Targets are described as excessive pressure on management to achieve a target determined by the directors. Financial target has a positive

coefficient value means that each increase in financial target of 1 will result in an increase in financial statement fraud by 25,114 with a record of other independent variables constant. Financial targets have a significant positive effect on financial statement fraud. That is, financial targets can affect the occurrence of financial statement fraud. The proxy used is return on assets (ROA) which is often used to assess manager's performance in determining bonuses, wage increases, and others.

3.2.4 The Effect of Ineffective Monitoring on the Financial Statement Fraud

Ineffective monitoring is a situation when a company does not have an effective oversight unit to monitor company performance. Weak supervision or monitoring in financial statements is one of the impacts of the occurrence of cheating practices (Andayani, 2010). In particular, independent commissioners who are part of the board of commissioners play a very important role in minimizing earnings management, which is a form of financial statement fraud. Therefore, in this study the independent board of commissioners is a proxy for Ineffective Monitoring.

3.2.5 The Effect of Change In Auditors on the Financial Statement Fraud

Variable Change In Auditor (CPA) has a significant negative effect on financial statement fraud. That is, changes in changes in public accounting firms by the company can result in a transition period and stress period to hit the company. The change of public accountant in two years can be an indication of fraud. This research is in line with research conducted by Summer and Sweeney (1998) showing that changes in auditors have a significant relationship to financial statement fraud. Based on the description, the change of public accounting firm can encourage management or directors to take financial statement fraud.

3.2.6 The Effect of Rationalization on Financial Statement Fraud

The rationalization variable has a positive coefficient regression value meaning that any increase in rationalization by 1 will result in an increase in the financial statement of fraud by 6.577 with the other independent variables being constant. Rationalization is the attitude / rationalization of board members, management, or employees allowing them to get involved and justify fraudulent financial statements. This research is in line with Francis and Krishna (1999) and Vermeer (2003) argue that the accrual principle is related to management decision making and provides insight into rationalization in financial reporting. According to Skousen (2009) the variable ratio of total accruals can be used to describe the rationalization associated with the accrual principle by management.

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